Draig

RESOURCES
LTD.

1994

ANNUAL REPORT

Highlights

FINANCIAL ($)

Year ended November 30	1994	1993	% change
Revenue before royalties			
Gas	**$ 1,024,291**	$ 261,060	292
Oil & NGL	**$ 485,863**	$ 170,333	185
Plant	**$ 90,430**	$ 58,428	55
TOTAL	**$ 1,600,584**	$ 489,821	227
Funds generated from operations	**$ 458,254**	$ 167,856	173
Funds generated from operations per share	**$ 0.05**	$ 0.03	67
Net earnings	**$ 24,380**	$ 36,939	-34
Net earnings per share after preferred dividend	**$ 0.00**	$ 0.00	
Debt	**$ 955,000**	$ –	
Weighted average number of shares outstanding	**9,305,408**	6,144,630	51
Capital expenditures	**$ 3,769,678**	$1,680,512	124

OPERATIONS

Production			
Natural gas-Mcf	**505,637**	127,057	298
Mcf/d	**1,385**	348	298
Average price per Mcf	**$ 2.03**	$ 2.06	-1
Oil & NGL-Bbls	**26,348**	8,461	211
BPD	**72**	23	213
Average price per bbl -oil	**$ 20.69**	$ 22.05	-6
-NGL	**$ 14.61**	$ 13.44	9
Net reserves before royalties (proven & probable*)			
Natural gas-Mcf	**8,138,479**	2,020,700	303
Oil & NGL-Bbls	**488,579**	107,330	355
Land (acres)			
Gross	**39,040**	35,780	9
Net	**8,845**	7,387	20
Producing wells			
Gross	**24**	11	118
Net	**7.5**	3.8	97

* probable risked at 50%

Corporate Profile

Draig Resources Ltd. is an aggressive Canadian junior oil and gas company engaged in the acquisition, development and production of oil and natural gas reserves in Western Canada. The Company is listed on the Alberta Stock Exchange and trades under the symbol "DRG".

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President's Message to Shareholders

Nineteen ninety–four was a year of outstanding growth in the financial and operating results for Draig Resources Ltd. The Company achieved significant increases in revenue, cash flow, production, and reserves. This reflects a major enhancement in shareholder value, which is expected to continue in the 1995 operating year.

Financial

During 1994, revenues grew by 227 percent to $1,600,584. Funds generated from operations during this period increased by 173 percent to $458,254, while net earnings for the year declined 34 percent to $24,380. The improvements in financial results were due to increased production from the Company's active development program during the year. The drop in net earnings is attributable to higher expenses relating to wells being placed on-stream late in 1994.

In 1994, natural gas production averaged 1,385 Mcf per day, a three–fold increase. Oil and natural gas liquids sales more than doubled during the period to an average of 72 Bbls per day. At November 30, 1994, Draig was producing natural gas at a rate of 2,500 Mcf per day and oil and natural gas liquids at a rate of 150 Bbls per day.

The gas sales price realized in 1994 averaged $2.03 per Mcf, down $0.03 per Mcf, and the average sales price for oil was $20.69 per Bbl, compared to $22.05 per Bbl in 1993. The average sales price for natural gas liquids rose to $14.61 per Bbl from $13.44 per Bbl in the prior year. The decline in the oil price was the result of low world prices in the early part of 1994. Natural gas prices started to decrease during the last quarter of 1994 causing the average sales price to decline.

Operational

Operational activities in 1994 were highlighted by the discovery of significant reserves of oil at Chigwell and natural gas at Whitecourt. At the same time, the Company commenced development drilling at Tony Creek and Handsworth. Draig carried out an active drilling and completion program in 1994, participating in 13 wells which resulted in 7 oil and 4 gas wells, for a success rate of 85 percent.

Also in 1994, Draig acquired producing properties in the Ferrier, Dapp and Giroux areas of Alberta at a cost of $2.47 per BOE, adding 18 Bbls of oil and 350 Mcf of gas to daily production.

Reserves

An independent evaluation of the Company's proven and probable oil and gas reserves, as at October 1, 1994, shows that oil reserves grew 355 percent to 488,579 Bbls, while natural gas reserves increased 303 percent to 8.1 Bcf. The net present value of Draig's reserves (using escalated prices and discounted at 15 percent) is $8 million. The new reserves were added at a finding and on-stream cost of $3.52 per BOE.

At November 30, 1994 the Company had interests in 24 (7.5 net) wells and in 39,040 (8,845 net) acres of land. Draig continues to focus its efforts on adding cost–effective reserves of light oil and high deliverability and long life reserves of gas. To date, the Company has established a solid reserves and production base that will provide it with the cash flow to

fund future growth through strategic acquisitions and the discovery of new reserves.

Draig has organized a dedicated team with the technical expertise to evaluate properties, explore for new reserves and the discipline to profitably manage these reserves. The key players on this team are Garry Tether, Carole Atkinson and Les Treitz, the co–founders of Draig; along with our Controller, Ailsa Brereton, who is responsible for the Company's finances. Mark McKinnon and Scott Nalder manage operations and land respectively.

1995 Plans

Since its inception in 1992, Draig has assembled a base of quality undeveloped lands and a portfolio of internally generated low risk oil and gas prospects. During 1995, Draig plans to drill or complete 7 (4.0 net) wells and add required production facilities for a total capital expenditure budget of $1,700,000. This capital budget will be financed by the Company's internally generated cash flow and its bank line of credit, and is based on prices averaging $22.00 Cdn. per barrel of oil and $1.60 Cdn. per Mcf of gas.

Oil production for the year 1995 is forecasted to average 220 Bbls per day, based upon development drilling and completions at Chigwell, Nipisi, Huntoon and Handsworth. Gas production is expected to average 2,600 Mcf per day. One objective for 1995 is a balance between oil and gas production which will allow Draig to weather wide fluctuations in commodity prices.

Gas Contracts

Currently, 75 percent of the Company's gas production is sold under long term contracts and the remainder is sold on the Alberta spot market. Even with current low spot gas prices, the Company's high well deliverability, favourable gas contracts and low operating costs ensure that its gas production continues to be very profitable. Despite lower natural gas prices, the Company expects to undertake an active exploration and development program in 1995. The anticipated increase in reserves and production will further enhance shareholder value.

The Future

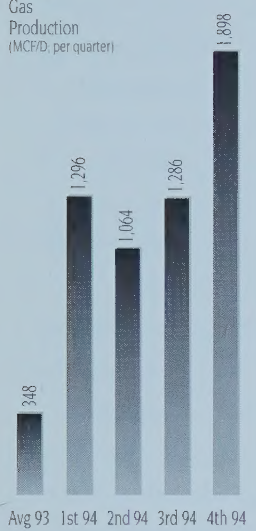
Nineteen ninety–three was a strong year for equity financing. Draig issued shares and built up the cash reserves to fund its successful 1994 acquisition and drilling program. Now is the time for Draig to reap the rewards of its success. Current low spot gas prices may create opportunities for acquisitions and Draig is prepared to take advantage of this buying opportunity. A strong exploration and development program, coupled with strategic acquisitions, will result in higher production, increased revenues and continued growth in shareholder value.

Respectfully submitted on behalf of the Board of Directors,

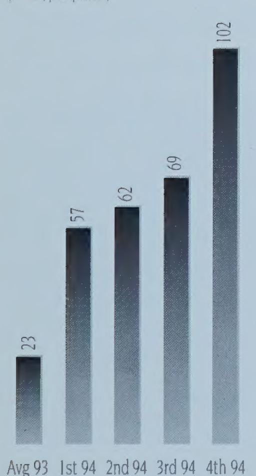
Leslie W. Treitz
President and
Chief Executive Officer
March 21, 1995

Operations Review

Average
Gas
Production
(MCF/D; per quarter)



Average
Oil & NGL
Production
(BOPD; per quarter)



Draig's strategy for growth can be summarized as follows:

- Internal generation and evaluation of the prospect area
- Making a key, low–cost acquisition to establish a base position
- Exploitation to deliver a prime producing asset.

This strategy, together with the highly qualified, internal technical expertise, has been successful in all of the Company's core areas. Draig's objective is to maintain a high working interest in all internally generated projects. The Company has consistently shown an impressive track record of adding oil and gas reserves with a finding and on–stream cost of $3.52 per BOE, which is well below industry average.

Draig was very active in all operational areas during 1994, achieving significant growth in reserves, production, and financial results.

Drilling and Completion

Activity in 1994 was concentrated mainly in the Company's core areas of Tony Creek, Whitecourt, and Chigwell in Alberta, and in two areas of southeast Saskatchewan. Draig operated all of its internally generated projects.

Draig participated in the drilling of 11 wells (4.0 net wells) of which five were operated by the Company. This activity resulted in seven oil wells, three gas wells and one dry hole which has the potential to be completed as a water injection well. In addition, one workover and one re–completion resulted in a suspended well and a producing gas well.

Acquisitions

In 1994, Draig acquired two gas producing properties – 720 net acres at Dapp and 430 net acres at Ferrier, Alberta – and one oil producing property – 592 net acres at Giroux, Alberta. These properties added 350 Mcf per day of gas production and 18 BOPD of oil production net to the Company.

Both of the gas properties have excellent potential for increased production and/or reserves through facilities upgrading and development drilling. The oil property has potential for significant reserve additions and increased production through the implementation of a waterflood program and additional infill drilling.

Capital Expenditures

In 1994 capital expenditures totalled $3,769,678 compared to $1,680,512, an increase of $2,089,166. The Company's finding and on–stream costs were $3.52 per BOE for proved and probable (risked at 50 percent), compared to $5.34 for the previous year.

	1994	1993
Drilling and completions	**$2,456,091**	$ 302,666
Re–completions	**$ 37,557**	$ 562,741
Equipping and facilities	**$ 401,197**	$ 77,388
Geological and geophysical	**$ 45,351**	$ 35,592
Acquisition of reserves	**$ 635,000**	$ 620,867
Acquisition of land	**$ 175,334**	$ 69,528
Miscellaneous	**$ 19,148**	$ 11,730
Total	**$3,769,678**	$ 1,680,512

Production

Natural gas production during 1994 averaged 1,385 Mcf per day, an increase of 298 percent over the gas produced in 1993. By the November 30, 1994 fiscal year end, gas production had reached 2,500 Mcf per day.

Oil and natural gas liquids production averaged 72 BOPD up 213 percent over the prior year. At fiscal year end, oil and natural gas liquids production was 150 BOPD.

Reserves

Draig's proven and probable reserves as at November 30, 1994 reflect a significant growth from the prior year, with a more than three–fold increase in each of gas and oil and natural gas liquids reserves. These reserve additions were calculated after deducting volumes produced during the year. The 1994 reserves were independently evaluated as at October 1, 1994 by Status Engineering Ltd., and are summarized in the table below.

Marketing

During 1994, the primary purchaser of the Company's gas was Progas Limited under a long–term contract in the Tony Creek area. Approximately 67 percent of the Company's 1994 gas production was sold under this contract at an average price of $2.09 per Mcf. The remainder of gas produced in 1994 was sold on the spot market or came from non–operated properties averaging $1.89 per Mcf. The average price received for production in 1994 was $2.03 per Mcf. Because of the instability in the gas market in late 1994, the Company has contracted an additional 500 Mcf per day of its spot market gas to a one year contract at a price of $1.75 per Mcf.

Draig's oil and natural gas liquids production is marketed through Gibson Petroleum Ltd. and EOTT Energy Canada Ltd. The average API gravity of the oil production is 36° and therefore is not subject to any quality differentials. The average price received for the year was $20.69 per barrel of oil and $14.61 per barrel of natural gas liquids.

Reserves

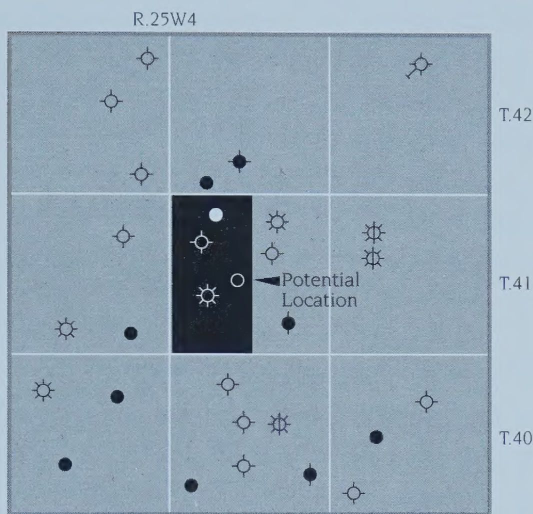
	Oil & Liquids [1] (barrels)			Gas [1] (millions of cubic feet)		
	Proven	Probable	Total	Proven	Probable	Total
At November 30, 1993	107,330	0	107,330	2,021	0	2,021
Additions	305,997	101,600	407,597	5,026	1,597	6,623
Production	(26,348)	0	(26,348)	(506)	0	(506)
At November 30, 1994	386,979	101,600	488,579	6,541	1,597	8,138
% CHANGE	261		355	224		303

[1] Net reserves before royalties

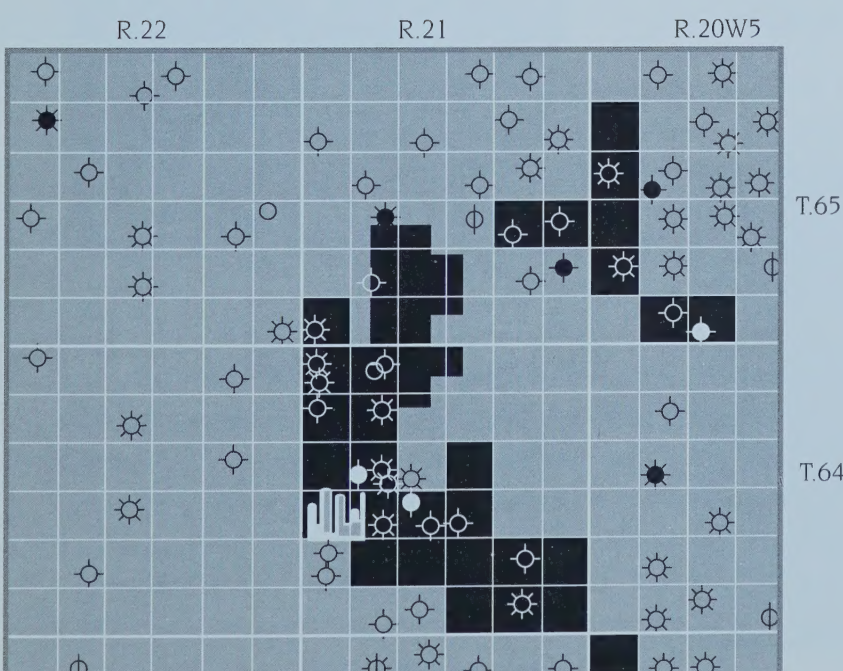
Major Areas of Interest

Legend

- Gas Plant
- ○ Location
- ☼ Gas Well
- • Oil Well
- ⌖ D & A
- ■ Draig Lands



Chigwell



Tony Creek

Chigwell, Alberta

Through an innovative approach to the geological interpretation of this area, Draig was able to obtain a prime position on this prospect. An initial 3–D seismic program targeted an excellent Leduc oil well producing at 120 barrels per day at November 1994 (Draig 50 percent). The land position has been expanded, a second 3–D seismic program shot and a location is scheduled for drilling in the first quarter of 1995. Draig will have a 47.5 percent interest in this well. Additional drilling targets for similar geologic scenarios are located in the vicinity and Draig is aggressively pursuing these opportunities.

Tony Creek, Alberta

Draig has assembled an extensive land position in the Tony Creek area involving a base 18 percent working interest in 28,600 acres. This very productive area has provided the Company with an excellent foundation for numerous long–term exploration and development prospects. Prior to drilling, the Company negotiated farm–ins to increase its net working interests to between 50 and 100 percent. Draig currently has three producing wells in the Tony Creek area, with net production of 950 Mcf per day and 20 BPD of natural gas liquids. During 1994, Draig drilled two very encouraging wells which will be tested during 1995. In addition, the Company has an 18 percent interest in a gas plant which processes the Company's production and provides steady third party gas processing revenue.

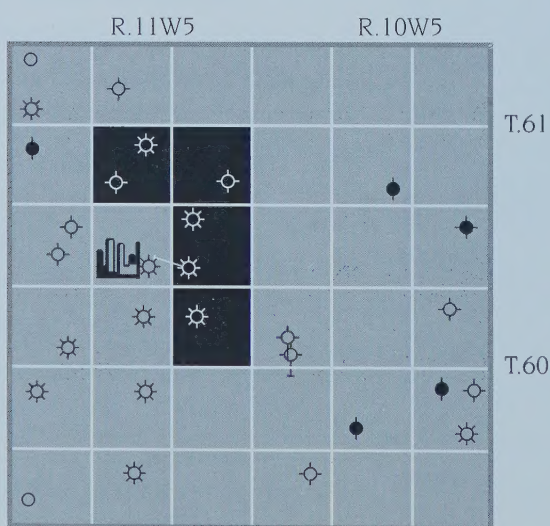
Due to the relatively low current gas prices and Draig's flexibility to shift its focus to oil

prospects, there are minimal plans for Tony Creek during 1995. However, industry interest in this particular area remains high. Several prominent exploration companies have had major discoveries in the vicinity, which could substantially increase the Company's plant revenue by contracting excess capacity to process this third party gas.

Whitecourt, Alberta

This internally generated prospect has multi–faceted benefits, namely high deliverability, long life reserves, close proximity to pipeline, proven multi–zone production and available acreage for additional exploitation.

Draig's base position in this prospect was established with a $750 acquisition of a minor working interest. During 1994, the land position was increased to 2,560 gross (1,065 net) acres. A well drilled on the prospect, in which Draig has a 65 percent working interest, is currently producing at 1800 Mcf per day. Drilling of a second location is scheduled for 1995.



Whitecourt

Legend
- Gas Plant
- Location
- Gas Well
- Oil Well
- D & A
- Draig Lands

Huntoon, Saskatchewan

A development farm–in has been negotiated on a 960 acre block within the producing Huntoon oil field. The commitment well, an in–fill location which is scheduled to be drilled during the second quarter of 1995 at Draig's cost, will earn the Company a 50 percent working interest in the block. Anticipated production is 75 BOPD. Draig will have a rolling option to drill several follow–up infill wells within the farm–in block. Production from the Halbrite formation in this area is a light crude oil with expected average well life of 30 years.

Huntoon

* Lines as surveyed

Handsworth, Saskatchewan

Draig has working interests varying from 9.75 percent to 19.75 percent in four producing oil wells. A central battery, flow lines and a water disposal well, which are planned for the second quarter of 1995, should improve efficiency, lower operating costs, and increase the Company's netback.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of the financial condition and results of operations of Draig for the years ended November 30, 1994 and November 30, 1993 should be read in conjunction with the financial statements contained in this annual report.

Overview

During 1994 Draig undertook an aggressive capital expenditure program which amounted to $3,769,678, an increase of 124 percent over 1993. The success of this capital expenditure program resulted in increasing proved and probable (risked at 50 percent) reserves to 1,302,427 barrels of oil equivalent (BOE) and an increase in daily production from 130 BOE to 400 BOE per day at November 1994. These significant operational achievements have been reflected in improvements in financial results during 1994 with funds generated from operations rising by 1.7 times.

Financial

For the year ended November 30, 1994, funds generated from operations amounted to $458,254 or $0.05 per common share, up significantly from $167,856 or $0.03 per common share in 1993; and net earnings declined to $24,380 a decrease of 34 percent from the $36,939 earned in the prior year.

Oil and gas revenue before royalties in 1994 was $1,600,584 compared to $489,821 in 1993. This increase was attributable to higher production volumes which averaged 211 BOE per day in 1994 compared to 58 BOE per day in 1993. The Company's successful drilling program accounted for 85 percent of the increase in volumes, and 15 percent was generated from the acquisition of producing properties. At November 30, 1994 the Company's gross revenue was derived 30 percent from oil, 64 percent from gas and 6 percent from gas processing. In 1995 oil is expected to be 50 percent of the Company's gross revenue. There was no significant change in average product prices in 1994 from 1993.

Royalties net of Alberta Royalty Tax Credit (ARTC) for 1994 amounted to $333,092 or 22 percent of oil and gas sales compared to $34,565 or 8 percent in 1993, with the increase primarily attributable to the increased Crown royalty rates on wells with higher productivity and Crown payments potentially not eligible for royalty relief under the ARTC program. The Company has made a submission to the Alberta Treasury stating their case and are of the opinion that the amounts will be paid in full. During the year the Company had included the ARTC benefit in net earnings, however, at year end a ruling from Alberta Treasury had not been received. If the Company is successful in its appeal, net earnings will increase by $147,957 or $0.02 per share.

Operating expenses in 1994 have increased to 32 percent of revenue or $6.19 per BOE compared to 24 percent of revenue or $4.89 per BOE in 1993. This increase is due to the Company having substantial interests in new oil production with initial high operating costs. Draig is taking steps to reduce operating expenses by lease electrification, purchase of a well suitable for water disposal and achieving economies of scale with the operation of more wells in the same area.

General and administrative expenses increased from $138,295 in 1993 to $274,432 in 1994 primarily due to higher staffing levels required late in 1993 for the increased capital program and expanded operations. The Company has production from 24 wells in 1994 compared to 11 wells in 1993. The general and administrative expenses per BOE have declined substantially from $6.53 in 1993 to $3.57 in 1994. Projected production growth without corresponding increases in general and administrative costs should result in further declines in general and administrative expenses on a per BOE basis.

Netbacks from Operations (per BOE)

	1994	1993
Petroleum and natural gas sales	**$ 19.63**	$ 20.38
Royalties, net of ARTC	**(4.33)**	(1.63)
Operating expense	**(6.19)**	(4.89)
General and administrative	**(3.57)**	(6.53)
Interest	**(0.02)**	(0.25)
Other	**0.44**	0.85
Total	**$ 5.96**	$ 7.93

At November 30, 1994 Draig had tax pools aggregating $3,300,000 which are available for deduction for income tax purposes in future years. Of this amount, $900,000 is deductible in 1995 and the Company does not expect to pay either federal or provincial taxes in 1995. However, based on projected production growth and product prices, the Company may become taxable in 1996.

Capital Expenditures

In 1994 capital expenditures totalled $3,769,678 compared to $1,680,512, an increase of $2,089,166. Finding and on–stream costs were $3.52 per BOE for proved and probable (risked at 50 percent) compared to $5.34 in 1993.

Capital Expenditures

	1994	1993
Drilling and completions	**$2,456,091**	$ 302,666
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Miscellaneous	**$ 19,148**	$ 11,730
Total	**$3,769,678**	$1,680,512

Liquidity and Capital Resources

In 1994 Draig decided not to undertake a public issue of common shares as the dilution would not be beneficial to the current shareholders. Instead Draig financed its operations by carrying a negative working capital of $505,000 at November 30, 1994 and a bank line of credit of $1,000,000 of which $955,000 was drawn down at year end. The Company's bank facility undergoes an annual review to determine the borrowing capacity based on current reserves and product prices.

Subsequent to year end, the bank line of credit has been increased to $2,000,000 following the bank's annual review. Draig's 1995 capital expenditure program of $1,700,000 will be financed by the Company's internally generated cash flow and its bank line of credit.

Business Risks and Prospects

Oil and gas exploration and development involves many risks which may not be overcome even with the combination of extensive technical experience and knowledge, and careful evaluation. Draig attempts to mitigate these risks by using highly qualified staff and up to date technology.

The marketability and price of existing oil and gas production as well as production of reserves which will be discovered or acquired by the Company will be affected by numerous factors beyond its control. These factors include demand for oil and gas, market fluctuations, the Canada/US dollar exchange rate, the proximity and capacity of oil and gas pipelines and processing facilities, and government regulations. The Company has entered into various gas contracts to diminish the effect of fluctuating gas prices as more fully discussed in the Operations Review. The following table shows the Company's estimate of its current sensitivities to changes in prices in 1995 based on estimated average production of 220 barrels of oil and liquids per day and 2600 Mcf of gas per day. These production levels include anticipated volumes related to the Company's 1995 drilling program after adjustment for risk factors.

Environmental Risks

Draig conducts its business in compliance with all provincial and federal environmental regulations and has implemented and documented an emergency response plan to ensure that in the event of an accident all necessary parties are fully informed about environmental risks and hazards and prompt action is taken. The Company has made a cumulative accounting provision for site restoration of $39,430 using the unit–of–production method based upon estimates from independent engineers.

Oil & Gas Price Sensitivity

	Change in Funds from Operations	Change in Funds from Operations per Share	Change in Earnings	Change in Earnings per Share
Cdn. $1.00 oil price change	$48,000	$0.005	31,000	$0.003
Cdn. $0.10 gas price change	$78,000	$0.008	50,000	$0.005

Auditors' Report to the Shareholders

We have audited the balance sheets of Draig Resources Ltd. as at November 30, 1994 and 1993 and the statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at November 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
January 27, 1995

Balance Sheets

November 30, 1994 and 1993

	1994	1993
Assets		
Current assets:		
Cash and term deposits	$ –	$ 2,032,298
Accounts receivable	**431,643**	302,216
	431,643	2,334,514
Property, plant and equipment (note 2)	**4,420,509**	1,482,576
	$ 4,852,152	$ 3,817,090
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 3)	**$ 56,186**	$ –
Accounts payable	**880,251**	523,089
	936,437	523,089
Long-term debt (note 4)	**955,000**	–
Provision for site restoration costs	**39,430**	9,000
Shareholders' equity:		
Share capital (note 5)	**2,910,134**	3,266,010
Retained earnings	**11,151**	18,991
	2,921,285	3,285,001
Contingency (note 8)		
	$ 4,852,152	$ 3,817,090

See accompanying notes to financial statements

On behalf of the Board:

,Director ,Director

Statements of Earnings and Retained Earnings

Years ended November 30, 1994 and1993

	1994	1993
Revenue:		
Oil and gas sales, net of royalties	**$ 1,179,813**	$ 402,063
Gas processing, net of expenses	**30,608**	11,426
Interest income	**16,206**	8,720
	1,226,627	422,209
Expenses:		
Operating	**476,374**	103,469
Depletion and depreciation	**341,423**	108,111
General and administrative	**274,432**	138,295
Interest	**17,567**	12,589
	1,109,796	362,464
Income before income taxes	**116,831**	59,745
Income taxes - deferred	**92,451**	22,806
Net earnings	**24,380**	36,939
Retained earnings, beginning of year	**18,991**	3,532
Preferred share dividends	**(32,220)**	(21,480)
Retained earnings, end of year	**$ 11,151**	$ 18,991
Earnings per common share	**$ 0.00**	$ 0.00

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Years ended November 30, 1994 and1993

		1994		1993
Cash provided by (used in):				
Operations:				
Net earnings	$	**24,380**	$	36,939
Items not affecting cash:				
Depletion and depreciation		**341,423**		108,111
Deferred income taxes		**92,451**		22,806
Funds generated from operations		**458,254**		167,856
Change in non-cash working capital		**227,735**		211,410
		685,989		379,266
Financing:				
Long-term debt		**955,000**		–
Common shares issued		**72,750**		3,249,387
Dividends paid		**(32,220)**		(21,480)
Share issuance costs		**(325)**		(304,751)
Preferred shares issued		**–**		358,000
		995,205		3,281,156
Investments:				
Property and equipment additions		**(3,769,678)**		(1,680,512)
Proceeds on disposal of oil and gas properties		**–**		57,100
		(3,769,678)		(1,623,412)
Increase (decrease) in cash		**(2,088,484)**		2,037,010
Cash, beginning of year		**2,032,298**		(4,712)
Cash, end of year	$	**(56,186)**	$	2,032,298
Funds generated from operations per share	$	**0.05**	$	0.03

Cash consists of cash, term deposits and bank indebtedness.

See accompanying notes to financial statements

Notes to Financial Statements

Years ended November 30, 1994 and1993

Draig Resources Ltd. was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on June 8, 1992. The Company is engaged in oil and gas exploration, development and production and its shares are listed on the Alberta Stock Exchange.

1. Significant accounting policies:

(a) Oil and gas operations:

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisitions, geological and geophysical costs, carrying charges for non-producing properties, costs of drilling both productive and non-productive wells, production and gathering equipment, and administrative costs directly associated with these activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a material change in the rate of depletion.

The capitalized costs together with estimated future capital costs associated with development of proven reserves are depleted and depreciated using the unit-of-production method which is based on proven gross oil and gas reserves before royalties as determined by the Company and independent engineers. The cost of significant unevaluated properties is excluded from the depreciation and depletion base. For purpose of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure based upon their relative energy content.

The capitalized costs less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proven reserves (based on prices and costs at the balance sheet date) less estimated future general and administrative expenses, financing costs, income taxes and estimated future abandonment and site restoration costs.

(b) Flow-through shares:

The deductions for income tax purposes of expenditures related to exploration and development activities funded by flow-through share arrangements are renounced to shareholders in accordance with income tax legislation. Oil and gas properties and share capital are reduced by the estimated value of the renounced tax deductions when the expenditures are incurred.

(c) Site restoration costs:

Estimated future removal and site restoration costs are provided for over the life of the proven reserves before royalties on a unit-of-production basis. Costs are estimated each year by the Company and independent engineers based upon a review of current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual removal and site restoration expenditures are charged to the accumulated provision account as incurred.

(d) Joint activities:

Substantially all of the exploration and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

(e) Depreciation:

Gas plant and equipment are recorded at cost and are depreciated over the useful life of the assets.

(f) Per share data:

Per share amounts are calculated based on the weighted average number of shares outstanding during the year. Fully diluted per share amounts are not disclosed as the effect of the exercise of the options, warrants and the conversion of preferred shares would not be materially dilutive.

2. Property, plant and equipment:

November 30, 1994	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties and well equipment	$ 4,725,574	$ 400,118	$ 4,325,456
Gas plant and equipment	112,691	17,638	95,053
	$ 4,838,265	$ 417,756	$ 4,420,509

November 30, 1993	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties and well equipment	$ 1,492,642	$ 100,018	$ 1,392,624
Gas plant and equipment	96,697	6,745	89,952
	$ 1,589,339	$ 106,763	$ 1,482,576

2. Property, plant and equipment (continued):

Oil and gas properties with a net book value of $1,698,770 (1993 - $575,149) have no cost base for income tax purposes. This results from the renunciation of income tax deductions to flow-through share investors. As at November 30, 1994, petroleum and natural gas property costs include $360,560 (1993 - nil) related to undeveloped properties which are excluded from depletion calculations until such time as the properties are evaluated.

During the year, the Company capitalized $72,900 (1993 - $40,200) of administrative costs pertaining to the Company's exploration, development and property acquisition activities.

3. Bank indebtedness:

Bank indebtedness consists of cheques issued in excess of cash in bank.

4. Long-term debt:

The Company has a demand credit facility of $1,000,000 with a Canadian chartered bank. It is secured by a $1,000,000 floating charge debenture, a $1,000,000 first fixed charge debenture and a general security agreement. Loans under this facility bear interest at the bank's prime rate plus 3/4%. Although loans under this facility are due on demand, no principal repayments are required in the next year providing the Company satisfies the bank's requirements under the loan agreement. Subsequent to year end, the Company's demand credit facility was increased to $2,000,000 following the bank's annual review.

5. Share capital:

(a) Authorized:

Unlimited number of common voting shares without nominal or par value.

Unlimited number of First Preferred Shares issuable in series. With respect to payment of dividends and distribution of assets in the event of dissolution winding up or liquidation of the Company these shares shall be entitled to preference over the common shares and the shares of any other class ranking junior to the First Preferred Shares.

Unlimited number of Second Preferred Shares issuable in series. With respect to the payment of dividends and distribution of assets in the event of dissolution, winding up or liquidation of the corporation these shares shall rank subordinate to the First Preferred Shares and shall be entitled to preference over the common shares.

(b) Issued and outstanding:

One series of First Preferred Shares has been issued being the First Preferred Shares Series A which bear a 9% cumulative dividend, payable quarterly. These shares are non-voting and are convertible at the option of the holder into common shares on the basis of one common share for one preferred share; and at the option of the Company if the most recent five-day weighted average trading price of the common shares exceeds $1.75 per common share on the same basis.

	First Preferred Shares		Common Shares		
	Number	Amount	Number	Amount	Total
November 30, 1992	–	$ –	4,100,000	$ 195,244	$ 195,244
Issued for cash:					
Pursuant to the exercise of agents' options from initial offering	–	–	200,000	20,000	20,000
Pursuant to the private placement of flow-through shares	–	–	1,290,000	531,500	531,500
Pursuant to the exercise of stock options	–	–	125,000	12,500	12,500
Pursuant to the private placement of preferred shares	447,500	358,000	–	–	358,000
Pursuant to the exchange offering prospectus	–	–	3,139,150	2,511,320	2,511,320
Pursuant to repayment of shareholder loans	–	–	76,668	49,067	49,067
Issued for properties	–	–	326,037	125,000	125,000
Tax effect on flow-through share funds expended	–	–	–	(254,791)	(254,791)
Share issuance costs	–	–	–	(304,751)	(304,751)
Deferred tax benefit	–	–	–	22,921	22,921
November 30, 1993	447,500	358,000	9,256,855	2,908,010	3,266,010
Issued for cash:					
Pursuant to exercise of stock options	–	–	27,500	2,750	2,750
Issued for properties	–	–	97,412	70,000	70,000
Tax effect on flow-through share funds expended	–	–	–	(520,752)	(520,752)
Share issuance costs	–	–	–	(325)	(325)
Deferred tax benefit	–	–	–	92,451	92,451
November 30, 1994	447,500	$ 358,000	9,381,767	$ 2,552,134	$ 2,910,134

There are no Second Preferred Shares issued.

5. Share capital (continued):

(c) Flow-through shares:

In 1993, the Company issued 2,859,575 flow-through shares on which it was required to renounce income tax expenditures of $1,750,660. The Company made expenditures of these funds of $1,175,511 in 1994 and $575,149 in 1993. All required renunciations were made in accordance with the flow-through agreements.

(d) Warrants:

In 1993 the Company issued 447,500 warrants in conjunction with the preferred shares issued. The warrants can be exercised to purchase one common share at a price of $0.85 until April 7, 1995.

(e) Stock options:

The Company has established a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase common shares up to ten percent of the issued and outstanding common shares. On January 24, 1994 the Company granted stock options to purchase 400,000 shares exercisable from time to time at $0.432 per share to officers and employees of the Company. As at November 30, 1994 the Company had 657,500 options outstanding exercisable at prices ranging from $0.10 to $0.432 expiring from June 30, 1997 to January 24, 1998.

6. Income taxes:

The provision for income tax differs from the result which would have been obtained by applying the combined federal and provincial income tax rates (44%) to the Company's income or losses before income tax. The difference results from the following:

	1994	1993
Expected income tax provision	**$ 51,406**	$ 26,288
Depletion related to property with no-tax base	**30,013**	8,879
Non-deductible Crown payments, net	**102,656**	5,684
Resource allowance	**(92,861)**	(19,104)
Other	**1,237**	1,059
Provision for income taxes	**$ 92,451**	$ 22,806

7. Commitment:

The Company is committed to rental lease payments through to 1997. Minimum payments are:

1995	$ 23,572
1996	24,149
1997	6,805
1998	278

The Company recovers a portion of lease payments through other subleases.

8. Contingency:

During the year the Company received $21,620 being the benefit earned in 1993 under the Alberta Royalty Tax Credit program for a well on which the entitlement to this benefit is under dispute. The Company has applied for the benefit earned in 1994 on this same well amounting to $147,957. This amount has not been recognized in income or included in accounts receivable. The Company and its professional advisors have made a submission to the Province of Alberta supporting the Company's entitlement to the disputed amounts. Management is of the opinion that the amounts will be paid in full. Upon resolution of this issue, any amounts paid to or received from the Province of Alberta will be accounted for as a prior period adjustment.

9. Comparative figures:

Certain comparative figures have been reclassified to conform with current year's presentation.

Corporate Information

Directors

Carole E. Atkinson (1)
Vice President Exploration,
and Corporate Secretary
Draig Resources Ltd.
Calgary, Alberta

Orest Humeniuk (1)
Corporate Director
Calgary, Alberta

Garry Tether (1)
Vice President
Operations & Treasurer
Draig Resources Ltd.
Calgary, Alberta

Leslie W. Treitz
President and
Chief Executive Officer
Draig Resources Ltd.
Calgary, Alberta

Officers and Senior Management

Leslie W. Treitz
President and
Chief Executive Officer

Carole Atkinson
Vice President Exploration
and Corporate Secretary

Garry Tether
Vice President
Operations and Treasurer

Ailsa Brereton, C.A.
Controller

(1) Member of Audit Committee

Head Office

Suite 1900,
801 – 6th Avenue S.W.
Calgary, Alberta
T2P 3W2
Telephone (403) 263–5181
Facsimilie (403) 269–5515

Auditors
KPGM Peat Marwick Thorne
Chartered Accountants
Calgary, Alberta

Bankers
Royal Bank of Canada
Calgary, Alberta

Corporate Counsel
Burnet Duckworth & Palmer
Calgary, Alberta

Registrar & Transfer Agent
Montreal Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing
Alberta Stock Exchange
Trading Symbol: DRG

The Annual General Meeting of Draig Resources Ltd. will be held on Thursday, May 4, 1995 at 9:30 a.m. at Greenstreet Restaurant at 815 - 7th Ave. SW, Calgary, Alberta.

Abbreviations

BOE	barrels of oil equivalent
Mcf	thousand cubic feet
Bbls	barrels
BPD	barrels per day
BOPD	barrels of oil per day

Designed/Produced by the Merlin Creative Group Inc.

Draig Resources Ltd.
Suite 1900, 801 - 6th Ave. S.W.,
Calgary, Alberta T2P 3W2
Phone: (403) 263-5181
Facsimilie: (403) 269-5515

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